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Report to the Congress

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OFFSHORE OIL AND GAS

Final Annual Report on Shut-In and Flaring Wells

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United States
General Accounting Office
Washington, D.C. 20548

Comptroller General
of the United States

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To the President of the Senate and the
Speaker of the House of Representatives

In accordance with the Outer Continental Shelf (OCS) Lands Act Amendments of 1978, we are providing our eighth report to you evaluating the methodology that the Department of the Interior uses in allowing offshore oil and gas wells to be suspended from production (shut in) or to burn off (flare) natural gas. (See appendix I for a list of our previous reports.) We continue to believe, as indicated in our prior reports, that Interior's methodology for allowing OCS oil and gas wells to be shut in or to flare natural gas is reasonable. This will be our final report on Interior's methodology, since the Congress repealed, as we had recommended, Section 15(1)(D) of the OCS Lands Act, as amended, and Sections 601 (a) and (b) of the OCS Lands Act Amendments of 1978, which required Interior's annual report and our annual evaluation of Interior's methodology.

Interior's Minerals Management Service (MMS) has primary responsibility for monitoring OCS lease activities, including shut-in and flaring wells. We conducted our review primarily at the MMS Gulf of Mexico OCS regional office in Metairie, Louisiana. About 92 percent of the 4,005 producing offshore oil wells and all but 22 of the 2,918 producing gas wells are in the Gulf of Mexico.

We compared applicable regulations, policies, procedures, and records on shut-in and flaring wells, as well as lease operator flaring requests, with those in effect during our seventh review to determine whether any changes in methodology had occurred. In addition, we interviewed MMS regional officials responsible for Interior's oversight of shut-in and flaring wells. For informational purposes, we used, without audit, data from the MMS fiscal year 1985 annual report on the OCS Oil and Gas Leasing/Production Program. We conducted our review from May through June 1986 in accordance with generally accepted government auditing standards.

Interior's Methodology

As in past years, Interior relies primarily on shut-in and flaring well data submitted by well operators, which is verified through onsite inspections by MMS inspectors. Interior requires operators to report monthly on the status of shut-in wells and flaring wells. MMS inspectors verify shut-in and flaring well status through onsite platform checks

and review of platform records. OCS platforms in the Gulf of Mexico are routinely inspected.

Shut-In Wells

Interior allows or directs wells to be shut in for such reasons as safety, conservation, and pollution prevention. In addition, Interior may allow a well to be shut in to facilitate development, such as when the operator is awaiting (1) delivery or installation of equipment, (2) approval of a production permit by a government authority, or (3) development of special equipment to enhance production capability. Also, Interior may approve a well's being shut in for lack of transportation facilities if the lease operator is waiting for completion of a pipeline or is unable to use pipeline facilities for reasons beyond the operator's control.

Most wells are shut in for reasons beyond the control of the lease operator, such as production obstructions, equipment failure, or reservoir pressure decline. The primary reason for wells being shut in is sand or water obstructing the flow of oil or gas.

Interior reported that shut-in wells on federal waters totaled 3,221 as of September 30, 1985. In comparison, 3,085 wells were reported shut in by Interior in fiscal year 1984. According to Interior's fiscal year 1985 report, the number of shut-in wells has not increased significantly in proportion to total wells on the OCS. For example, at the end of fiscal year 1977, 29 percent of all wells were shut in while, at the end of fiscal year 1985, 32 percent of all wells were shut in.

Flaring Natural Gas

Interior allows flaring, or burning off, of natural gas during well purgings, evaluation tests, and safety-related emergencies caused by compressor or other equipment failure or for the relief of abnormal pressure buildup. Flaring of gas-well gas is prohibited except for short-term (24 hours or less) well tests. In an emergency, gas associated with an oil well may be flared without MMS approval. However, emergency flaring for a continuous period exceeding 72 hours or a cumulative period exceeding 144 hours in a calendar month requires MMS approval. Oil-well gas flaring during well purging and evaluation tests exceeding 24 hours also requires prior MMS approval. The flaring of oil-well gas may be approved for periods of up to 1 year provided (1) the operator has initiated a plan of action to eliminate the flaring or (2) adequate data are furnished to conclude that, without flaring, the oil production lost would result in a greater total energy loss than if flaring were allowed and the oil were produced.

The amount of gas flared in fiscal year 1985 increased from that flared during fiscal year 1984 according to Interior's report. In fiscal year 1985, approximately 19 billion cubic feet of gas was flared, compared with about 18 billion cubic feet in fiscal year 1984. The amount flared in fiscal year 1983 was about 21 billion cubic feet.

Reporting Requirements Have Been Repealed

Section 15(1)(D) of the OCS Lands Act and Section 601(a) of the OCS Lands Act Amendments of 1978 required the Secretary of the Interior to annually report to the Congress on shut-in and flaring wells. Section 601(b) of the amendments required the Comptroller General of the United States to annually review, evaluate, and report to the Congress on the methodology the Secretary of the Interior used in allowing OCS wells to be shut in or to flare natural gas. Our last six reports have questioned the usefulness of Interior's annual report. In each report, we recommended that the Congress repeal Section 15(1)(D) of the OCS Lands Act, as amended, and Sections 601(a) and (b) of the OCS Lands Act Amendments of 1978.

On July 31, 1986, the President signed the OCS Paperwork and Reporting Act (Public Law 99-367), which eliminates unnecessary paperwork and reporting requirements contained in Section 15(1) of the OCS Lands Act (Public Law 83-212); and Section 601, and others, of the OCS Lands Act Amendments of 1978 (Public Law 95-372). These repeals abolish the requirements that Interior annually report on shut-in and flaring wells and that we annually evaluate the Secretary of the Interior's methodology. Interior has previously stated that it intends to continue monitoring OCS shut-in and flaring wells as part of its normal responsibilities.

Conclusions

We believe that Interior's methodology for allowing OCS oil and gas wells to be shut in or to flare natural gas is reasonable. We also believe the elimination of Interior's reporting requirement will not diminish Interior's responsibility for administering mineral exploration and development and conserving the natural resources of the OCS.

Agency Comments

Interior agrees with our report and has reaffirmed that it will continue to monitor OCS shut-in and flaring wells.

Copies of this report are being sent to the Secretary of the Interior; the Director, Office of Management and Budget; and the House and Senate Committees and Subcommittees having oversight and appropriation responsibilities for the matters discussed in the report.

Charles A. Bowsher
Comptroller General
of the United States

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GAO Reports Evaluating Interior's Methodology for Allowing Shut-In and Flaring Wells

Reports to the Congress

Interior Lacks Adequate Oversight of Shut-In or Flaring Natural Gas Wells on the Outer Continental Shelf (EMD-80-3, Nov. 21, 1979).

Interior's Report of Shut-In or Flaring Wells Unnecessary, But Oversight Should Continue (EMD-81-63, Apr. 17, 1981).

Annual Report on Outer Continental Shelf Shut-In or Flaring Wells Is No Longer Needed (EMD-82-17, Nov. 19, 1981).

Interior's Report of Shut-In or Flaring Wells Unnecessary, But Oversight Should Continue (GAO/RCED-83-10, Oct. 5, 1982).

Congress Should Consider Eliminating Requirement for Interior's Report on Shut-In or Flaring Wells (GAO/RCED-84-19, Oct. 24, 1983).

Interior's Report on Shut-In or Flaring Wells Is Unnecessary (GAO/RCED-85-10, Oct. 30, 1984).

Our Seventh Annual Review of Interior's Methodology for Allowing OCS Wells to be Shut in or to Flare Natural Gas (GAO/RCED-85-161, Sept. 30, 1985).

Report to the Secretary of the Interior

Follow-up on Actions Taken in Response to GAO's Recommendations Concerning the Department of the Interior's March 1979 Shut-In and Flaring Wells Report (EMD-81-23, Nov. 25, 1980).

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